

Sri Lanka Ayurvedic Drugs Corporation – 2018

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Ayurvedic Drugs Corporation (“Corporation”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the Statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and the Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to the Parliament appear in this report.

In my opinion, except for the effects of the matters described in the paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in the paragraphs 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Corporation.

1.4 Auditor's Responsibility for the Audit of Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Corporation and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation;
- Whether the Corporation has performed according to its powers, functions and duties; and
- Whether the resources of the Corporation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non - compliance with reference to the Standard	Management Comment	Recommendation
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(a) Sri Lanka Accounting Standard 2		
(i) According to the paragraph 09 of the Standard, even though stock should be measured at the lower of cost or net realizable value, the balance of the stock of finished drugs as at 31 December 2018 had been measured at the cost of it.	Not commented	Actions should be taken as per the Sri Lanka Accounting Standard 2. Financial statements for the year 2019 should be prepared after rectifying this error.
(ii) According to the paragraph 10 to 15 of the Standard, even though all cost relating to purchase stock, cost of conversion and other costs incurred in bringing the inventories to their present location and condition should be included into the cost of balance stock of finished drugs, the cost of stock of finished drugs as at 01 January 2018 had been	The entire cost of the year 2016 had increased by 3 per cent and actions were taken to increase the cost of the stock by 3 per cent.	As mentioned above

calculated and taken into accounts as Rs.119,683,119 based on the value calculated by adding 3 per cent to the cost of each drug of the year 2016.

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| (iii) | There were instances of not being valued the stocks which were included in the balance stock of finished drugs as at 31 December 2018 and manufactured in previous years, at its actual value and instead of that it had been valued based on the cost of the drugs manufactured in the year 2018. | The cost of the limited working papers of the years 2017 and 2018 were only entered into the computer, production of the years 2017 and 2018 could not be identified directly with the cost of the said production because sales centers were not computerized. | Actions should be taken as per the Sri Lanka Accounting Standard 2. Financial statements for the year 2019 should be prepared after rectifying this error. |
| (iv) | According to the stock registers maintained, number of units of finished drugs remained as at 31 December 2018 or cost thereof had not been calculated. Instead, the cost of the physical balance of the finish drug stock as at that date amounting to Rs.91,124,985 had been taken into accounts. As a result, as per the paragraph 34 of the standard, deficiencies and surplus of the stock as at that date had not been recognized in the financial statements. | The value of the physical stock was included as the value of stock as at 31 December 2018, accordingly the effect occurred on surplus and deficiencies were taken into accounts. | As mentioned above |
| (v) | According to the paragraph 36 of the Standard, when calculating Rs.91,124,985 which had been taken into accounts as the cost of the balance stock of the finished drugs as at 31 December 2018, cost formula used, accounting policies used and the cost of damaged stock amounting to Rs.6,370,745 included in the cost of physical stock balance had not been disclosed. | According to the paragraph 36 of the Standard, all disclosures were included in the financial statements for the year 2019. | As mentioned above |

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| (b) | According to the paragraph 42 of the Sri Lanka Accounting Standard 8, material prior period errors should be corrected retrospectively in the first set of financial statements authorized for issue after their discovery by restating the comparative amounts for prior period presented in which the error occurred. However without doing so, a sum of Rs.3,256,967 had been adjusted to 2 items of the financial position statement as at 31 December 2018. | Not commented | Actions should be taken as per the Sri Lanka Accounting Standard 8 Financial statements for the year 2019 should be prepared after rectifying this error. |
| (c) | Although a sum of Rs.6,872,474 had been shown in the financial statements as the gratuity expenses for the year under review, according to the paragraph 76 of the Sri Lanka Accounting Standard 19, actuarial assumptions such as death ratio, employees turn over, pre retirements, disabilities, discount rates, claim rates under medical plans and medical benefits had not been disclosed. | According to the Accounting Standard 19, all disclosures were included in the financial statements for the year 2019. | Actions should be taken as per the Sri Lanka Accounting Standard 19. Financial statements for the year 2019 should be prepared after rectifying this error. |
| (d) | According to the paragraph 17 of the Sri Lanka Accounting Standard 24, even though the value of short term employment benefits which are paid to the key management personnel of the Corporation, value of other long term benefits and termination benefits should be disclosed, only the value of the remuneration paid to them had been disclosed. | Short and long term benefits paid for the key management personnel and termination benefits were disclosed under the note 3.9 of the financial statements. | Actions should be taken as per the Sri Lanka Accounting Standard 24. Financial statements for the year 2019 should be prepared after rectifying this error. |

1.5.2 Accounting Deficiencies

Audit Issue	Management comment	Recommendation
(a) Income tax expenditure for the year under review and the provision for income tax as at 31 December 2018 had been taken in to accounts overstating by Rs.5,400,891 and Rs.5,326,793 respectively.	The correct amount of income tax expenses for the year 2018 was Rs.11,723,197 and the balance of the provision for income tax account as at 31 December 2018 was Rs.11,141,005.	Financial statements for the year 2019 should be prepared and presented after rectifying the said error.
(b) Cost of 17 items of finished drugs as at 31 December 2018 amounting to Rs.3,385,881 and the cost of 21,763 units relating to 60 items of finished drugs of which the cost had not been calculated had not been taken into accounts.	The cost relating to 17 types of finished drugs amounting to Rs.3,385,881 has been missed.	As mentioned above
(c) A sum of Rs.2,799,618 incurred on construction which was completed as at 13 September 2018 had not been capitalized and shown as work in progress and a sum of Rs.1,409,696 incurred on another construction had been taken into accounts as considering as a recurrent expenditure without capitalizing.	This error to be corrected when preparing financial statements for the year 2019.	As mentioned above
(d) The cost and accumulated depreciation of 5 motor vehicles which were owned by the Corporation and fully depreciated but still in use had been written off from the books in the previous year. In order to rectify the said error, the cost and accumulated depreciation amounting to Rs.3,256,967 had been taken in to accounts again. However the said assets had not been revalued.	A huge amount of money has to be paid for revaluation.	Financial statements for the year 2019 should be prepared and presented after rectifying the said error.
(e) Interest of deposit of savings amounting to Rs.314,420 for the year under review had not been taken in to accounts.	Not commented	As mentioned above

1.5.3 Unreconciled Accounts

Item	Value as per the financial statements	Value as per the corresponding records	Difference	Management comment	Recommendation
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	Rs. million	Rs. million	Rs. million		
(a) Revenue of sales	675.87	679.44	3.57	Credit sales done by 03 sales centers and a regional office were not taken into accounts.	All sales should be taken into accounts.
(b) Letter of credit account – Peoples Bank	5.15	4.08	1.07	There was a difference between the letter of credit account and the schedule.	Action should be taken to compare with the corresponding records and to present the financial statements.
(c) Debtors	190.92	190.72	0.20	Not commented	As mentioned above
(d) Depreciation	6.05	7.44	1.39	To be reconciled and corrected in the year 2019.	As mentioned above.

1.5.4 Documentary Evidences not made available for Audit

Item	Amount	Evidence submitted	not	Management comment	Recommendation
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	Rs. million				
Debtors	110.75	Balance confirmation certificates.		Letters for confirmation of balances were sent to debtors and creditors, but not responded.	Special search should be carried out in connection with debtors and creditors who were not returned confirmation of balances and identification should get confirmed.
Creditors	31.25				

1.5.5 Receivable Money

Audit issue -----	Management comment -----	Recommendation -----
Any recovery had not been made during the year under review from the total value of 15 debtor balances amounting to Rs.2,396,142 as at 31 December 2018 which was remained unsettled over a period more than 5 years from 13 Public Sector Institutions. Out of that, debtors relating to 04 debtor balances amounting to Rs.1,379,850 had informed that there was no any balance to be recovered to the Corporation.	It is difficult to be recovered the balances due to unavailability of data because the officers who were responsible for the commitments for the period before the year 2014 were not available and actions to be taken to recover the balances.	A proper methodology for recovering debts should be introduced and implemented.

1.5.6 Payable Money

Audit issue -----	Management comment -----	Recommendation -----
Seventy four credit balances at the total value of Rs.20,207,994 as at 31 December 2018 had not been settled more than a period of 14 months.	Actions to be taken to get confirmed that the payment had been made for invoices.	An internal control methodology in connection with creditors should be introduced and implemented.

1.6 Ad hoc Imprests

Audit issue -----	Management comment -----	Recommendation -----
According to the Financial Regulation 371 (5) ad hoc sub imprest should be settled within 10 days after completing the work for which the advance was obtained. However 08 ad hoc imprest issued for 06 officers of the Corporation amounting to Rs.99,740 had not been settled even up to 31 March 2019 and the delay was in a range of 10 to 150 days.	Not commented	Actions should be taken as per the Financial Regulation 371 (5).

1.7 Non compliances with Laws, Rules Regulations etc.

Reference to laws, rules and regulations etc.	Non compliance	Management comment	Recommendation
Financial Regulation 103 and 104 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Investigations had not been carried out as per the Financial Regulations to identify the persons who should be responsible for the loss of stock of finished drugs at the cost Rs.6,370,745 which had been recognized as damaged during the year under review.	Not commented	Actions should be taken as per the Financial Regulations

1.8 Non Compliance with Tax Requirements

Audit issue	Management comment	Recommendation
According to the Section 84 of the Inland Revenue Act No. 24 of 2017, a sum of Rs.187,500 represents 10 per cent of the rent of a sales center paid, had not been deducted as withholding tax and remitted to the Department of Inland revenue.	Actions to be taken to remit Rs.187,500 to the Department of Inland Revenue as withholding tax.	Actions should be taken as per the provisions of the Inland Revenue Act.

1.9 Unauthorized Transactions

Audit issue	Management comment	Recommendation
(a) The Committee on Public Enterprises held on 09 November 2007 had directed to obtain the approval of the Treasury for the incentive scheme implemented since the year 1997. Nevertheless actions had not been taken to obtain the said approval even up	For the time being, a new methodology for calculating incentive is being prepared based on the achievements of the targets of the production and the sales sections.	An incentive scheme should be prepared as to be able to improve the efficiency of the officers attached to all sections and incentive should be paid after obtaining the proper approval.

to 28 March 2019 and the total amount of incentives paid during the period of 5 previous years was Rs.366,435,770. In this incentive scheme, 4 types of incentives such as production incentives based on the production cost, attendance allowances, allowance for the balance of medical leave and incentives for effectiveness were included. In a situation of inflation in the market, the production cost is increased annually. As a result, the production incentive is increased annually. Therefore, it could not be expected that, the efficiency of employees may be increased due to such incentive scheme.

Further, equal amount of production incentive is being paid for the employees who had not directly contributed to improve the production. Hence it had not been affected to encourage the improvement of performance of such sections.

- (b) A leave procedure had been prepared and implemented incorporating the administrative and administrative regulations inherent to the Sri Lanka Ayurvedic Drugs Corporation since 19 November 1987. However approval of the General treasury had not been obtained for the said leave procedure. Hence instead of that leave procedure, the Board of Directors had decided on 16 February 2009 to apply the Establishment Code, Financial Regulations and other relevant circulars since January 2009. However without following Establishment Code, Leave procedure and disciplinary procedure were prepared and in order to make payment for medical leave, letters were sent to the Ministry and to the Treasury for approval, Payments for medical leave for the year 2018 were made on the basis of get recovered if the approval will not be granted. A proper guideline for financial and administration regulation should be prepared and approval of the Ministry of Public Administration and the General Treasury should be obtained. Payments made for remaining medical leave based on the leave procedure which had not been approved should be recovered.

financial regulations and other relevant circulars, a sum of Rs.23,151,940 had been paid to officers and employees for remaining medical leave for the period from the year 2012 to the year 2018 according to the leave procedure of which the approval not being obtained.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs.15,672,122 and the corresponding surplus for the preceding year amounted to Rs.43,656,859. Therefore a deterioration amounting to Rs.27,984,737 of the financial result was observed. The reason for the deterioration is increase of operational expenses by Rs.35,184,513.

2.2 Trend Analysis of Major Revenue and Expenditure Items

Although income of sales for the year under review had increased by 17 per cent compared with the previous year, cost of sales had increased by 30 per cent. Other income and net financial income had increased by 23 per cent and 139 per cent respectively and operational expenses had increased 40 per cent.

2.3 Ratio Analysis

Compared with the previous year, gross profit ratio and net profit ratio had decreased by 6.47 per cent and 5.23 per cent during the year under review. Further current ratio and quick ratio had decreased by 0.11 per cent and 0.05 per cent respectively.

3. Operational Review

3.1 Management Inefficiencies

Audit issue	Management comment	Recommendation
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(a) Reports of preliminary investigation which had been carried out in connection with harassments made to the Treasury representative by the employees of the Corporation, purchasing of Unani drugs incurring Rs.7,316,876, purchasing of 2,230 kilo grams of plums incurring Rs.1,513,456, purchasing 200 kilo grams of bees wax incurring Rs.168,000, purchasing of 1,500 kilo grams of unwashed guguls incurring Rs.1,995,000 had been received to the Corporation during the period of the years 2016 and 2017. However decision made by the said Committee had not been implemented even up to 15 March 2019.	Actions were taken to file a civil case.	Actions should be taken to implement the decisions made by the Ministry Investigation Committee.
(b) A surcharge of Rs.1,312,002 had to be paid relating to the period from the year 2012 to the year 2017 because contributions to the Employees Provident Fund had not been paid within due period of time according to the Section 10 and Section 16 of the Employees Provident Fund Act No. 15 of 1958.	Contributions were not paid to the Employees Provident Fund for the temporary labors who were deployed in herbal gardens and according to the recommendations of the Department of labor outstanding amount and a surcharge were paid.	Actions should be taken as per the Employees Provident Fund Act. Disciplinary actions should be taken by the Disciplinary Authority in respect of the officers who were responsible for the payment of surcharge as per the Section 8.1 and 8.2 of the Chapter XLVII of the Establishment Code.

- (c) The request for retirement made by an officer who had served for the Corporation had been considered as a resignation. As per the verdict of the case filed against to that, a sum of Rs.719,849 had to be paid to the officer as compensation.
- Former Human Resources Manager of the Corporation had requested to leave the service on Compensation Retirement Scheme of the year 2017. However the Board of Directors had considered it as a resignation and terminated the service. Hence outstanding salaries and compensation had to be paid as per the verdict of the court.
- Disciplinary actions should be taken by the Disciplinary Authority in respect of the officers who had not taken actions to protect the rights of employees as per the Section 8.1 and 8.2 of the Chapter XLVII of the Establishment Code.
- (d) Actions had not been taken to recover from the guarantors the loan balances amounting to Rs.932,090 recoverable from 06 officers who had interdicted during the previous year
- Five employees and one officer had been dismissed from the service in the year 2018 after carrying out a proper investigation, Distress loans they had obtained were not recovered and actions to be taken to recover from the guarantors.
- Prompt actions should be taken to recover from the guarantors
- (e) Although a semi auto drug filling machine had been purchased at the cost of Rs.3,025,650 in the year 2016, drug capsules which was essential to utilize the machine had been purchased in October 2018. Even though 3,100,000 drug capsules for the requirement of coming 5 years had been purchased incurring a sum of Rs.1,516,258, the machine had not been utilized even up to 21 March 2019. Nevertheless, a sum of Rs.2,742,256 had been paid to an external institution for filling drug capsules for the period from the year 2016 to the year 2018.
- A number of 438,000 drug capsules were used As at 30 March 2019, the stock of capsules was received to the Corporation at the end of the year 2018 due to delays of the procurement process. Production of capsules is being carried out continuously by this machine since then.
- The first stock of drug filling capsules had been issued on 24 April 2019. Hence false comments should not be presented. The machine and drug filling capsules should be utilized according to a proper plan.

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| (f) Credit conditions for the credit sales made to the Public Sector had not been prepared and recovering of debts of the Public Sector as at 31 December 2018 amounting to Rs.183,766,205 was in a slow and feeble condition. | Credit conditions for sales made to Public Sector will be prepared in future. | Credit conditions for the credit sales made to the Public Sector should be prepared and implemented |
| (g) The total debit balance which could not be recovered as a result of making credit sales contrary to the debt conditions relevant to mobile sales as at 31 December 2018 was Rs.6,710,624. | Required credit conditions as per the current situation will be prepared in future. | Actions should be taken to revise credit conditions relating to mobile sales appropriately and recover all debts. |

3.2 Operating Inefficiencies

Audit issue	Management comment	Recommendation
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(a) Only the activities restricted to the Treasury provisions had been included into the action plan for the year under review which had been prepared contrary to the provisions of the Public Finance Circular No. 01/2014 dated 17 February 2014. Other capital expenditure get provided by the funds of the Corporation had not been included into it. Progress reports as at 31 December 2018 had not been prepared as to be complied with the action plan.	An action plan based on priorities will be prepared in coming years.	The action plan should be prepared properly as per the Circular instructions within the due period of time and the progress reports should be prepared as to be complied with the action plan.
(b) Out of the 10 capital activities at the estimated cost of Rs.100 million included in to the action plan prepared for the year under review, the Corporation had failed to fulfil 09 activities at the estimated cost of Rs.95 million even up to 15 March 2019. However unutilized funds received from the Treasury as at 31 December 2018 was Rs.80,172,480.	A sum of Rs.47 million was received only from the Treasury instead of the total estimated expenditure of Rs.100 million. Hence activities were delayed, construction of Rasa Drugs Manufacturing Building is being carried up to now.	Actions should be taken to utilize the funds received from the Treasury which had not been utilized with a proper plan and approved capital projects for the year should be completed within the year.

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| (c) | There were 7 objectives of the Corporation as per the notification published in the Extraordinary Gazette of the Government No. 14,853/3 dated 11 May 1969. Among them, actions had not been taken to fulfill the objectives such as dairy farming for collecting pure fresh milk in order to produce pure gee required for manufacturing of Ayurveda drugs, producing honey for manufacturing of drugs, Bee keeping and development of bee keeping as a domestic industry. | For the time being actions is being taken to cattle farming and bee keeping. | Actions should be taken to fulfill the Key Objectives of the Corporation. |
| (d) | Standard cost had not been prepared for the finished drugs hence variations could not be identified compared with actual cost and remedies could not be applied. | Actions will be taken to prepare the standard cost in future. | A methodology should be established and implemented for carrying out costing properly. |
| (e) | A specific overhead cost absorption ratio had not been identified in order to recognize the production cost of each drug. Instead, overhead cost had been absorbed under two proportions of 45 per cent and 65 per cent. | Overhead cost is absorbed in a rate of 65 per cent of the labor cost | A methodology should be established and implemented for carrying out costing properly. |
| (f) | Performance indicators for the process of other section relating to fulfil the production plan and the marketing plan of the Corporation had not been introduced and reviewed the performance. | Formats including information of performance were submitted to the relevant sections for evaluation of performance for the year 2018. | Performance indicators for the process of each section should be introduced and performance should be reviewed. |
| (g) | According to the annual production plan prepared for the year under review, the expected annual production of 13 productions which were not new inventions could not be achieved by 17,291 kilograms and 338,536 bottles of 750 ml respectively and the expected annual production of 36 new inventions could not be achieved by 3,904 kilo grams and 255,804 units. | The annual production plan is prepared considering the available production facilities and forecasts, the target of production could not be achieved due to environment conditions, difficulties of providing raw materials and delays. However the production had increased by 15.2 per cent compared with the previous year. | Actions should be taken to achieve targets via establishing practically possible targets, finding out permanent solutions for the scarcity of raw materials, and managing human and physical resources of the production section. |

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| (h) | Out of the expected sales income of the Government Sector for the previous year, income amounting to Rs.79,984,655 that is 15 per cent could not be achieved. During the year under review, such revenue which could not be achieved had increased up to Rs.111,927,940 represents 17 per cent. | In order to increase the loss of the revenue again, actions to be taken to identify raw materials and to supply an amount fit to the demand of the market preparing marketing plan, production plan and the procurement plan through a proper coordination among the relevant divisions. | Actions should be taken to prepare realistic estimates and to achieve the expected sales income. |
| (i) | Out of the expected income of the Private Sector for the previous year, the income which could not be achieved was Rs.256,076,592 represents 67 per cent. During the year under review, such revenue which could not be achieved had decreased down to Rs.81,110,128 represents 34 per cent. However being under estimated the expected income of the private sector for the year 2018 by Rs.144,844,500 represents 38 per cent as compared with the year 2017, being reported the sales made to the Government sector as the sales of the private sector and being reported the income of supplying of medical services as the sales income, had affected to the said decrease. | As mentioned above | As mentioned above |
| (j) | The sales value of drugs which had been sold to the Public Sector by 6 sales centers during the period of 4 months from June 2018 to September 2018 was Rs.13,005,072. Out of that, a sum of Rs.11,819,420 had been erroneously reported as the value of drugs sold to the private sector and based on that information documents had been prepared to show that the monthly targets which had been given to the officers in charge had been achieved. | The marketing section was informed to present the Government Sector sales income and medical services income separately. | Sales value of drugs which had been sold to the Public Sector and Private Sector should be reported accurately. Officers in Charge who attempted to prove that they have achieved the monthly targets by preparing forged reports they should be warned to avoid such behavior. |

- (k) Revenue of Rs.78,372,900 had lost to the Corporation during the year under review due to the supply of 260,427 units and 407,243 ml of 164 productions categories to the public sector not being fulfilled. The revenue, lost as such in the previous year was Rs.106,695,025. There was a risk of missing the specific market share due to the fact that the demand received from the Public Sector could not be fulfilled without an attempt of promotion of sales.
- In order to increase the loss of the revenue again, actions to be taken to identify raw materials and to supply an amount fit to the demand of the market preparing marketing plan, production plan and the procurement plan through a proper coordination among the relevant divisions.
- Actions should be taken to protect the specific market share of the public Sector which can be fulfilled without an attempt of promotion of sales.
- (l) Although the cost of expired finished drugs as at 31 December 2015 was Rs.96,659, cost of the expired stock for the year 2016 and 2017 was Rs.1,949,672. The said cost had increased up to Rs.6,370,745 as at 31 December 2018.
- A Committee was already appointed to examine the expired stock
- Necessary actions should be taken as per the regulations of the Financial Regulation 102 to 105 to identify the responsible parties for expiration the stock.
- (m) An appropriate methodology to safeguard the quality of the stored dried drugs had not been identified and implemented. As per the Financial regulations 763, actions had not been taken to prepare a storage constitution and to obtain the approval. Over storage of drug stocks, as a result, destroying huge stocks, destroyed stocks not being removed, being stored destroyed stocks together with the good stocks were made. Dried drugs had not been stored satisfactorily. Stores were in a bad condition of uncleaned.
- Drug categories received from Courts were stored more than the requirement. Proper actions to be taken to remove the destroyed drugs from the stores after examining them, and renovations are being taken because the stores was very old, stores was prepared as to be able to store the dried drugs., at the moment plums, brown sugar and honey were stored in the new stores complex and those were removed from the dried drug stores.
- Stores control methods should be established and maintained as to be able to protect the quality of dried drugs. Storage constitution should be prepared and the approval of the Treasury should be obtained.

3.3 Idle or Underutilized Property, Plant and Equipment

Audit issue -----	Management comment -----	Recommendation -----
(a) Only the ground floor of the 3 storied building which had been hired since the year 1996 for the Wijerama sales center had been taken into use. Accordingly out of the total rent of Rs.16,695,000 incurred for the building during the period from the year 1996 to 31 December 2018, a sum of Rs.11,130,000 was a fruitless expense.	The damaged stock remained in 2 floors of the sales center Wijerama were already removed and it was planned to commence a Ayurveda Panchakarma Center in those 2 floors under the supervision of a medical officer as an economic activity and it was also planned to commence a congee sales center therewith.	A proper methodology should be established and implemented immediately as to be able to utilize the building effectively.
(b) The upper floors of the two buildings which had been hired at monthly rental of Rs.60,000 and Rs.50,000 respectively and conducted the Galle and Mathara sales centers had remained idle.	Actions will be taken to commence a medical clinic after a feasibility study or to shift the sales centers to a place of which with a low cost.	As mentioned above

3.4 Procurement Management

Audit issue -----	Management comment -----	Recommendation -----
(a) According to the Guideline 4 .2.1 and 4.2.2 of the Government Procurement Guideline, master procurement plan and the procurement time table had not been prepared.	Actions will be taken to prepare the procurement plan properly	Actions should be taken as per the Government Procurement Guideline
(b) Oil and liquid drugs at the estimated cost of Rs.49,492,806 had been purchased during the year under review calling quotations allowing 8 days instead of allowing the minimum period of 21 days which should be allowed to limited bids , bid opening minutes not being maintained and without obtaining statements of confidence and statements to prove that there were no private relationship with relevant parties from the members of the	Although quotations were called in a minimum time, actions will be taken to allow due time in future events of calling quotations. Signatures were obtained to confirm that they were agreed with the conditions of the quotation because it was difficult to sign	As mentioned above

Technical Evaluation Committee. Performance bonds had not been obtained and it had not been entered in to a proper agreement further. Liquidated damages amounting to Rs.725,052 had not been recovered as per the contract conditions and it was revealed that the quality of 3 types of oil supplied was not in the standard.

agreements with each supplier, examinations are carried out and reports are submitted by the medical officers

- (c) State Engineering Corporation had been selected as the contractor for the contract of laying interlocks in the Corporation premises and renovation of drainage system following emergency procurement method even though said activities could not be considered under the exceptional circumstances shown in the Guideline 3.8.1 (a) of the Government Procurement Guideline. The validity of the estimate of Rs.6,628,735 prepared by the contractor had not been verified and a sum of Rs.6,472,556 had been paid during the year under review based on the said estimate. A sum of Rs.4,245,740 paid, without confirming the normal pressure strength required by the specifications of the paving stones was included in it.
- For the time being , even though 10 months had lapsed after completion of the said work, there were no any damage to the interlocks laid and the work was in a satisfied standard
- Actions should be taken as per the Government procurement Guideline. Payments should be made after carrying out necessary examinations.
- (d) Without following the provisions of the Guideline 3.13.2 of the Government Procurement Guideline for selecting consultants, Contract for providing consultancy service for renovation of the main roof of the manufacturing plant at a total cost of Rs.30,245,000 had been awarded to the Sri Lanka Engineering Corporation.
- If there is any change of the requirement of the procurement entity according to the proposals made by the bidders for making changes in the specifications, all bids should be rejected and the procurement should be commenced again. Contrary to that, even though the required specification was zinc /aluminum roofing method, requirement had been changed up to
- Although the estimate prepared by the Sri Lanka Engineering Corporation was Rs.36,570,149 including 6 per cent consultancy fees , it was revised by the Technical Evaluation Committee up to Rs.27,251,281 including 2 per cent consultancy fees , the Procurement Committee approved the revised engineering estimate, the bid of which the technically acceptable lowest price had been submitted was
- As mentioned above

sandwich roofing panel method of which the alternative proposal had been presented by the bidder who had submitted the lowest bid of Rs.25,295,577 and the said bid had been approved by increasing the said bid up to Rs.30,244,767. An interim payment of Rs.8,105,358 had been paid to the contractor without confirming by consultants.

recommended by the Technical Evaluation Committee, there was a closest price to the revised engineering estimate, it took a value less Rs.8,745,015 than the engineering estimate which was previously prepared by the Engineering Corporation, interim payments were recommended satisfying with the bill presented and the job fulfilled after examining them, as per the instructions of the top management to be submitted the recommendations for interim payments.

3.5 Human Resources Management

Audit issue -----	Management comment -----	Recommendation -----
(a) Nine persons had been recruited on permanent basis to the post of security guard which had not been included in the approved cadre without obtaining the approval of Department of Management Services and the Board of Directors and total sum of Rs.15,140,829 had been paid as salaries and allowances for the period from the year 2015 to the year 2018.	Although a written request was made to the Department of Management Services in order to obtain the approval for recruitment for the post of security guard on permanent basis, it was not obtained and the 9 security guards already available were recruited as the post will be made private , there is no ability to the Corporation to make new appointments for those posts, the service was further obtained keeping the said post because the service of those 9 persons was essential.	Disciplinary actions should be taken by the Disciplinary Authority in respect of the officers who were responsible for making recruitments to the posts which had not been included in the approved cadre and payment of salaries as per the Section 8.1 and 8.2 of the Chapter XLVII of the Establishment Code.

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| (b) Four officers in Charge and 02 packing examiners had been recruited on permanent basis exceeding the approved cadre without obtaining the approval of the Department of Management Services and a sum of Rs.2,652,744 had been paid as salaries and allowances for the year under review. | Those officers were attached to 4 sales centers which were newly opened. At the time there is only 2 exceeding the approved limit. | As mentioned above |
| (c) Five officers who had not qualified for the post had been recruited on acting basis for 5 posts exceeding the approved limit of the cadre in the years 2015 and 2016 and total sum of Rs.212,712 had been paid as acting allowances during the year under review. | Actions will be taken to submit a report regarding the acting posts to the Board of Directors and to implement the decisions. | As mentioned above |
| (d) An art graduate who had not qualified for the post of Assistant General Manager (Administration and Human Resources) as the initial qualification of a degree of Human Resources Management / Law/ Business administration according to the scheme of recruitment of the post had been recruited to the said post in the year 2017 with a monthly salary of Rs.81,670. | The Director of the Department of Management Services was included into the interview board. Approval was obtained from the Department of Management Services to consider any other degree instead of the initial degree relevant to the post as per the requirement of the Institute. | Recruitments should be made to each post according to the qualifications of the Scheme of Recruitment which had been approved by the Department of Management Services. Scheme of Recruitment should be revised as per the requirement. |
| (e) Two officers who had not fulfilled the service experience for the post as per the Scheme of Recruitment had been recruited to the posts of Manager (planning) and Manager (supplies) in the year 2017 with a monthly salary of Rs.53,175 per person. | Although there was no experience of the relevant field, recruitment was made according to the capabilities and activities showed in the interview. A request had been submitted to the Department of Management Services for the approval to consider 3 year experience in staff grade instead of the experience in the relevant field. | As mentioned above |

- (f) Although 12 year service experience in a post of management level of public service or in a public institution should be required to the post of Assistant General Manager (Finance) an officer who had not fulfilled the said requirement had been recruited for the said post in the year 2017 with a monthly salary of Rs.81,670.
- The applicant who had got higher qualification in the interview was recruited for the post of Assistant General Manager (finance) and it was submitted to the approval of the Department of Management Services.
- As mentioned above

4. Accountability and Good Governness

4.1 Annual Action Plan

Audit issue	Management comment	Recommendation
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Information such as updated organization structure ,approved cadre, details of actual cadre, annual activity plan which should be prepared on the basis of priorities based on the annual budget, the time frame of which it had been implemented, expected outcome/ results of those activities had not been included into the action plan prepared. Further activities restricted to the Treasury provisions only had been included into the action plan and capital expenditure get provided under the funds of the Corporation had not been included into the action plan. Progress reports as at 31 December 2018 had not been prepared as to be complied with the action plan.	An activity plan based on priorities will be prepared in coming years.	The action plan should be prepared properly and the progress reports should be prepared as to be complied with the action plan.

4.2 Budgetary Control

Audit issue	Management comment	Recommendation
Adverse variances in a range of 22 per cent to 24 per cent between budgeted revenue and the actual revenue relating to 7 items of entire revenue and variances in a range of 13 per cent to 778 per cent between the budgeted expenditure and actual expenditure relating to 13 expenditure items out of 32 were observed . Hence the budget had not been used as an effective instrument of management control.	Not commented	The budget should be used as an effective instrument of management control

4.3 Market Share

Audit issue	Management comment	Recommendation
A market survey had not been carried out by the Corporation timely to determine the market share of the Corporation and the Corporation had not aware whether their market share had increased or decreased among the competitors.	Actions to be taken to carry out a market survey	Actions should be taken to carry out a market survey timely and to identify the market share relating to the Ayurvedic drugs.

4.4 Sustainable Development Goals

Audit Issue	Management comment	Recommendation
In order to achieve the Sustainable Development Goals ,even though the targets which should be achieved and indicators for measuring the progress and the gaps should be identified , the Corporation had not identified such indicators, achievements and deviations and the various fields which should be paid attention.	Actions will be taken in this regard.	Actions should be taken as per the Circular No. NP/SP/SDG/17 dated 14 August 2017 issued by the Secretary to the Ministry of Economic affairs.